



建福集團控股有限公司
KENFORD GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 00464

Interim Report
2017

Contents

| | Page |
|---|------|
| 1. Corporate Information | 2 |
| 2. Highlights | 3 |
| 3. Management Discussion and Analysis | 4 |
| 4. Supplementary Information | 9 |
| 5. Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income | 19 |
| 6. Condensed Consolidated Statement of Financial Position | 20 |
| 7. Condensed Consolidated Statement of Changes in Equity | 22 |
| 8. Condensed Consolidated Statement of Cash Flows | 23 |
| 9. Notes to the Condensed Consolidated Financial Statements | 24 |

Corporate Information

BOARDS OF DIRECTORS

Executive Directors

Lam Wai Ming (*Chairman*)

Tam Chi Sang (*Managing Director*)

Independent Non-Executive Directors

Chiu Fan Wa

Choi Hon Keung

Li Chi Chung

COMPANY SECRETARY

Pang Kit Teng

AUDIT COMMITTEE

Chiu Fan Wa (*Chairman*)

Choi Hon Keung

Li Chi Chung

NOMINATION COMMITTEE

Chiu Fan Wa (*Chairman*)

Choi Hon Keung

Li Chi Chung

REMUNERATION COMMITTEE

Choi Hon Keung (*Chairman*)

Chiu Fan Wa

Lam Wai Ming

Li Chi Chung

Tam Chi Sang

REGISTERED OFFICE

Cricket Square

Hutchins Drive

P. O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

PRINCIPAL PLACE OF BUSINESS

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New Territories, Hong Kong

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited

4th Floor, Royal Bank House

24 Shedden Road, George Town

Grand Cayman KY1-1110

Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong

Investor Services Limited

17th Floor, Hopewell Centre

183 Queen's Road East

Wanchai, Hong Kong

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISER

Sit, Fung, Kwong & Shum

PRINCIPAL BANKERS

Hang Seng Bank Limited

The Hongkong and Shanghai

Banking Corporation Limited

Dah Sing Bank Limited

INVESTOR AND MEDIA RELATIONS

Strategic Financial Relations Limited

www.sprg.com.hk

kenford@sprg.com.hk

CORPORATE WEBSITE

www.kenford.com.hk

STOCK CODE: 00464

Highlights

| | Six months ended 30 September | |
|---|--|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Operating results | | |
| Revenue | 238,370 | 272,680 |
| Gross profit | 39,648 | 36,024 |
| EBITDA | 2,068 | 3,982 |
| Net loss | (4,238) | (5,296) |
| Per share data | | |
| | HK cents | HK cents |
| Basic loss per share | (0.951) | (1.188) |
| Diluted loss per share | – | (1.188) |
| Net assets per share | 75.8 | 81.9 |
| Financial position | | |
| | HK\$'000 | HK\$'000 |
| Cash | 107,897 | 114,184 |
| Net cash (Cash and bank deposits less interest bearing borrowings) | 60,034 | 59,309 |
| Total assets | 515,055 | 536,475 |
| Net assets | 337,604 | 364,827 |
| Financial ratio | | |
| Gross profit margin | 16.6% | 13.2% |
| EBITDA to revenue | 0.9% | 1.5% |
| Net loss to revenue | (1.8%) | (1.9%) |
| Return on equity | (1.3%) | (1.5%) |
| Net cash to equity | 17.8% | 16.3% |

Management Discussion and Analysis

FINANCIAL RESULTS

The Group's turnover for the six months ended 30 September 2016 (the "**current period**") was HK\$238,370,000, a decrease of 12.6% from HK\$272,680,000 during the corresponding period last year (the "**last corresponding period**"). The decline was mainly contributed by the overall weak demand for haircare appliances.

Gross profit for the current period amounted to HK\$39,648,000, an increase of 10.1% from HK\$36,024,000 in the last corresponding period. Gross profit over revenue ("**gross profit margin**") during the current period was 16.6% compared to 13.2% in the last corresponding period. The increase was mainly contributed by the improved efficiency in the production process as more automation and less labour force was used.

Earnings before interest, tax, depreciation and amortisation ("**EBITDA**") dropped to HK\$2,068,000, a decrease of 48.1% from HK\$3,982,000 in the last corresponding period. Affected by the decrease in turnover, EBITDA over revenue ("**EBITDA Margin**") was 0.9% compared to 1.5% during the last corresponding period.

Net loss for the current period was HK\$4,238,000, a decrease of 20.0% from HK\$5,296,000 in the last corresponding period.

Basic loss per share was HK0.951 cents, representing a decrease of 19.9% from loss per share of HK1.188 cents in the last corresponding period.

The Board of Directors ("**The Board**") has resolved not to declare the payment of an interim dividend for the six months ended 30 September 2016 (six months ended 30 September 2015: Nil).

Management Discussion and Analysis

BUSINESS REVIEW

Market Review

The Group is principally engaged in the design, manufacture and sale of electrical haircare appliances. The Group's manufacturing base is in Dongguan PRC, with its products mainly sold on an Original Design Manufacturing (ODM) and Original Equipment Manufacturing (OEM) basis.

During the period under review, both the global and China economy stayed stagnant which directly dampened the demand for electronic haircare appliances. As a result, the Group's sales were inevitably affected. However, leveraging its long-term relationship with customers and high-quality products, the Group has maintained a strong position as one of the key global suppliers in the electronic haircare appliances segment. Its predominant revenue stream still has hair dryers leading the way followed by hair straighteners, airbrushes, curling tongs and curling brushes.

During the current period, the Group has faced strong pressure from customers requesting price reductions as they believed Renminbi depreciation would lower the Company's production cost, and thus it should pass all the savings on to them. In addition, as most of the Group's customers are from European countries, the significant devaluation of the Euro and Pound against the United States ("US") dollar presents a significant cost burden as they need to pay US dollars for all the goods that they purchase from the Group. The customers also cite this as another reason to get a price reduction.

However, testimony to the Group's quality is that most of its customers are renowned global brands, its five major customers have accounted for approximately 80% and 82% of the Group's total turnover during the current period and the last corresponding period, respectively. The Group believes that the European and Asian markets will remain the major geographic revenue contributors in the coming years.

Management Discussion and Analysis

Operations Review

Mainland China remains the Group's major production center. Similar to other manufacturers in Mainland China, the Group has faced a series of operating challenges, such as the slow recovery in export markets, declining growth in Mainland China's domestic market, the difficulties in recruiting production line operators and increases in both operation costs and general expenses. But amidst the macroeconomic uncertainty, prices of metal commodities, such as copper and lead, are stabilising, which could provide some relief to the cost pressures on the Group. Though the Group's gross profit margin has been seriously hit by most of these factors, it has been very difficult to pass all of the higher expenses on to customers.

As such, the Group has employed a two-pronged approach to maintain its profitability. On the one hand, the Group has continued to streamline its production processes as well as to adjust its sales strategy by focusing on niche customers and eliminating low margin products. On the other hand, the Group has exerted extra efforts in improving the competitiveness of its high quality products together with the bolstering R&D capabilities with an aim to enhance its market share and maintain a long term relationship with its customers.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2016, the Group had approximately HK\$107,897,000 in cash and bank deposits (31 March 2016: HK\$104,003,000). The Group's net current assets were approximately HK\$175,842,000 (31 March 2016: HK\$180,119,000). The current ratio was 2.1 (31 March 2016: 2.3). The net cash position after deducting all interest-bearing borrowings was HK\$60,034,000 (31 March 2016: HK\$57,005,000) and the net cash to equity ratio was 17.8% (31 March 2016: 16.4%).

Management Discussion and Analysis

As at 30 September 2016, the Group has aggregate banking facilities of HK\$160,400,000 (31 March 2016: HK\$160,400,000), of which HK\$47,863,000 (31 March 2016: HK\$46,998,000) was used. The borrowings comprised bank loan facilities of HK\$17,390,000 (31 March 2016: HK\$11,533,000) and trade finance facilities of HK\$30,473,000 (31 March 2016: HK\$35,465,000) with maturity due within one year. The bank borrowings carry interest at rates ranging from HIBOR/LIBOR plus 2% to 2.5% (31 March 2016: 2% to 2.5%) or 1% (31 March 2016: 1%) below the Prime Rate.

The Group has maintained a healthy liquidity position and has continuously monitored financial resources to ensure sufficient funding to meet working capital and capital expenditure requirements.

FOREIGN EXCHANGE EXPOSURE

The Group's financial statements are denominated in Hong Kong dollars. The Group conducts its business transactions mainly in Hong Kong dollars, United States dollars and Renminbi. As the Hong Kong dollar remains pegged to the United States dollar, there is no material exchange risk in this respect. To manage the fluctuation of the Renminbi exchange rate, the Group has successfully generated revenue in Mainland China to hedge Renminbi receipts and payments on an ongoing basis. All of the Group's bank loan facilities have been denominated in Hong Kong dollars and carry interest at floating rates.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2016, the Group employed 39 employees in Hong Kong (six months ended 30 September 2015: 45) and a total work force of approximately 1,550 (six months ended 30 September 2015: 1,795) inclusive of all its staff and workers in China. The Group's remuneration policy is built on the principle of remuneration packages to employees which are equitable, incentive-based where applicable, performance-oriented and market-competitive. Remuneration packages are normally reviewed on a regular basis. Apart from salary payments, other staff benefits include share option schemes, performance-based bonuses, provident fund contributions and medical insurance coverage.

Management Discussion and Analysis

OUTLOOK AND PROSPECTS

Facing political and economic uncertainties, the global economy is expected to remain challenging in the coming year. The Group anticipates that the business will be confronted with several key challenges. These include continuous sluggish demand due to weak consumer sentiments and business environment, the pressure from customers to lower its selling price, a shortage of skilled labour in Mainland China, the climbing taxes and fees assessed by Mainland China's government, the continuous increase of manufacturing costs, the shorter product life cycles of consumer electronic products as well as volatile capital markets and currency fluctuations. At the same time, the predictability of future sales orders received is comparatively low which presents difficulties in resources planning.

Despite the anticipated unfavourable macroeconomic environment, the Group will work diligently and implement the two-pronged approach: tightening cost control and upholding its product quality and R&D capabilities.

As one of the key global electrical haircare product manufacturers, the Group will continue to set its strategic direction aimed at reinforcing its position as a major ODM supplier to the world's leading brand owners. Our strength in advanced and innovative product design and development should drive sales growth momentum in the years to come. Moreover, our bolstered R&D capabilities will provide a solid platform for the Group to expand into the haircare manufacturing sector, which is currently undergoing consolidation, as the global economy revives in the near future.

Supplementary Information

SHARE CAPITAL

During the six months ended 30 September 2016, the listed shares of HK\$0.001 each in the share capital of the Company (the “**Share**”) was 445,646,000 Shares.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed shares of HK\$0.001 each in the share capital of the Company during the period.

INTERIM DIVIDENDS

The directors of the Company (the “**Directors**”) have resolved not to declare payment of an interim dividend for the six months ended 30 September 2016 (six months ended 30 September 2015: Nil).

Supplementary Information

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN THE SHARES OF THE COMPANY

As at 30 September 2016, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), as recorded in the register maintained by the Company under Section 352 of the SFO; or as notified to the Company and the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) in the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) were as follows:

Long position in the Shares of the Company

| Name of Director | Nature of interest | Total number of Shares | Approximate percentage of issued shares |
|------------------|--------------------|-------------------------|---|
| Mr. Lam Wai Ming | Corporate interest | 244,800,000 (Note 1) | 54.94% |
| | Personal | 395,000 | 0.09% |
| Mr. Tam Chi Sang | Corporate interest | 244,800,000 (Note 2) | 54.94% |
| | Personal | 395,000 | 0.09% |

Supplementary Information

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN THE SHARES OF THE COMPANY (Continued)

Long position in the Shares of the Company (Continued)

Notes:

- (1) Mr. Lam Wai Ming was taken to be interested in an aggregate of 244,800,000 Shares held by Achieve Best Limited ("**Achieve Best**") and Beaute Inc ("**Beaute**") respectively, of which
 - (a) 40,800,000 Shares were held by Achieve Best which was wholly-owned by Mr. Lam Wai Ming and he was the sole director of Achieve Best. Mr. Lam Wai Ming was therefore taken to be interested in the 40,800,000 Shares that Achieve Best was interested; and
 - (b) 204,000,000 Shares were held by Beaute which was owned as to 50% by Apex Prima Limited ("**Apex Prima**") and 50% by Potentasia Holdings Inc ("**Potentasia**"). Apex Prima was wholly-owned by Mr. Lam Wai Ming and Potentasia was wholly-owned by Mr. Tam Chi Sang. Mr. Lam Wai Ming was also a director of Beaute and the sole director of Apex Prima. Mr. Lam Wai Ming was therefore taken to be interested in the 204,000,000 Shares that Beaute was interested.
- (2) Mr. Tam Chi Sang was taken to be interested in an aggregate of 244,800,000 Shares held by Realchamp International Inc ("**Realchamp**") and Beaute respectively, of which
 - (a) 40,800,000 Shares were held by Realchamp which was wholly-owned by Mr. Tam Chi Sang and he was the sole director of Realchamp. Mr. Tam Chi Sang was therefore taken to be interested in the 40,800,000 Shares that Realchamp was interested; and
 - (b) 204,000,000 Shares were held by Beaute which was owned as to 50% by Apex Prima and 50% by Potentasia. Apex Prima was wholly-owned by Mr. Lam Wai Ming and Potentasia was wholly-owned by Mr. Tam Chi Sang. Mr. Tam Chi Sang was also a director of Beaute and the sole director of Potentasia. Mr. Tam Chi Sang was therefore taken to be interested in the 204,000,000 Shares that Beaute was interested.

Long position in the underlying shares of the Company

Details are set out in the section headed "SHARE OPTION SCHEME" below.

Supplementary Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY

As at 30 September 2016, the interests and short positions of the persons, other than Directors and chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long position in the shares of the Company

| Name of substantial shareholders | Number of Shares held | Approximate percentage of issued Shares |
|----------------------------------|-----------------------|---|
| Beaute | 204,000,000 | 45.78% |
| Apex Prima (<i>Note 1</i>) | 204,000,000 | 45.78% |
| Potentasia (<i>Note 2</i>) | 204,000,000 | 45.78% |
| Achieve Best | 40,800,000 | 9.16% |
| Realchamp | 40,800,000 | 9.16% |

Notes:

1. Apex Prima was taken to be interested in an aggregate of 204,000,000 Shares held by Beaute which was owned as to 50% by Mr. Lam Wai Ming and 50% by Mr. Tam Chi Sang through their respective interests in Apex Prima and Potentasia.
2. Potentasia was taken to be interested in an aggregate of 204,000,000 Shares held by Beaute which was owned as to 50% by Mr. Lam Wai Ming and 50% by Mr. Tam Chi Sang through their respective interests in Apex Prima and Potentasia.

Save as disclosed above, as at 30 September 2016, no person (other than Directors and chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which were recorded in the register required to be kept under section 336 of the SFO.

Supplementary Information

SHARE OPTION SCHEME

On 27 May 2005, the Company adopted a Share Option Scheme (“**2005 Share Option Scheme**”) which was matured on 26 May 2015. Pursuant to a resolution passed on 6 August 2015, the Company adopted a new Share Option Scheme which will remain in force for a period of ten (10) years. There was no option granted under the new Share Option Scheme during the six months ended 30 September 2016 (31 March 2016: nil).

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed above, at no time during the period were there any rights to acquire benefits by means of the acquisition of securities of the Company granted to any Director or their respective spouse or children under 18 years of age, or were there any such rights exercised by them; or was the Company, its holding company, its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CORPORATE GOVERNANCE

Corporate Governance Practices

In the opinion of the Board, the Company has complied with the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2016, except for the deviation from the CG Code A.2.1 and A.6.7 explained in the following relevant section.

To enhance accountability, transparency, independence, responsibility and fairness to the shareholders and stakeholders, the Company is dedicated to develop the appropriate framework of corporate governance for the Group. The Group will keep on reviewing and improving the corporate governance practices and procedures from time to time to ensure its commitment to the corporate governance standard and strive for the enhancement of shareholder value.

Supplementary Information

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted procedures governing directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all the directors of the Company (the "**Directors**") have confirmed that they fully complied with the required standards as set out in the Model Code throughout the six months ended 30 September 2016.

Board of Directors

The Board of Directors of the Company comprises five Directors, of which two are Executive Directors, namely, Mr. Lam Wai Ming (Chairman) and Mr. Tam Chi Sang (Managing Director) and three are Independent Non-Executive Directors, namely, Mr. Chiu Fan Wa, Mr. Choi Hon Keung and Mr. Li Chi Chung.

CG Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Lam Wai Ming holds the position of Chairman currently and is deemed to be the Chief Executive Officer. The Board believes that vesting the roles of Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies and development plans. The Board believes that the balance of power and authority is adequately ensured.

Code Provision A.1.1 stipulates that the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals. During the six months ended 30 September 2016, the Company had convened one Board meetings with the formal notice and agenda issued to all the Directors before the intended dates of the meetings. In view of good corporate governance practices, the Board has scheduled the meetings' calendar on a regular basis. It is expected that there will be at least four Board meetings to be convened for the financial year ending 31 March 2017.

Supplementary Information

Code Provision A.6.7 stipulates that independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders. One independent non-executive director, Mr. Li Chi Chung, did not attend the annual general meeting of the Company held on 11 August 2016 due to other business engagements.

Remuneration Committee

The remuneration committee of the Company (the “**Remuneration Committee**”) was established for the purpose of (i) to review and give comment to the overall remuneration policy and remuneration packages of the Group; (ii) to review and give comment to the basic salary of the Executive Directors and senior management of the Group; (iii) to review and give comment to the performance bonus of the Executive Directors of the Company; (iv) to note the fact that no compensation had been paid to the Executive Directors and senior management of the Group in relation to their resignation, if any; and (v) to recommend the remuneration packages of the Executive Directors and senior management of the Group for each financial year prior to recommending them to the Board for determination.

The Remuneration Committee comprises three Independent Non-Executive Directors namely, Mr. Chiu Fan Wa, Mr. Choi Hon Keung and Mr. Li Chi Chung and two Executive Directors namely, Mr. Lam Wai Ming and Mr. Tam Chi Sang. Mr. Choi Hon Keung was appointed as chairman of the Remuneration Committee.

Nomination Committee

The nomination committee of the Company (the “**Nomination Committee**”) was established to formulate nomination policy for consideration of the Board and to implement the nomination policy laid down by the Board. It has adopted the terms of reference, which are in line with the CG Code under Appendix 14 of the Listing Rules.

Supplementary Information

The Nomination Committee comprises three Independent Non-Executive Directors namely, Mr. Chiu Fan Wa, Mr. Choi Hon Keung and Mr. Li Chi Chung. Mr. Chiu Fan Wa was appointed as the chairman of the Nomination Committee.

Audit Committee

The audit committee of the Company (the “**Audit Committee**”) was established on 29 April 2005 with written terms of reference published on both the websites of the Stock Exchange and the Company. They are available for inspection by the shareholders of the Company upon request made to the company secretary. The primary duties of the Audit Committee are, inter alia, to review and supervise the financial reporting process, risk management and internal control system of the Group, to review the financial statements focusing particularly on (i) any changes in accounting policies and practices of the Group; (ii) the compliance with accounting standards and (iii) the compliance with the legal requirements, as well as to review the Company’s annual reports and interim reports.

The audit committee has the responsibilities and powers set forth in the terms of reference of the audit committee. Committee members shall meet at least twice to consider the interim and final results prepared by the Board.

The Audit Committee comprises three Independent Non-Executive Directors, namely, Mr. Chiu Fan Wa, Mr. Choi Hon Keung and Mr. Li Chi Chung. Mr. Chiu Fan Wa, who is a qualified accountant with appropriate professional qualification and experience in financial matters, was appointed as the chairman of the Audit Committee. None of the Audit Committee members are members of the former or existing auditors of the Company.

INTERNAL AUDIT

The Company has set up an internal audit department since February 2008. The Audit Committee has met with the internal auditor and discussed with the Board about the internal control report. The Board also through the Audit Committee conducted a review of the effectiveness of the systems of internal control and risk management of the Group which cover all material controls, including strategic, financial, operational and compliance controls. The Audit Committee considers the systems effective and adequate.

Supplementary Information

The Company has engaged a qualified accountant with appropriate working experiences in the Finance & Accounting Department of the Group. The Board was also satisfied with the adequacy of resources, staff qualifications and experiences, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

RISK MANAGEMENT

The Board recognises risk management as one of the key elements to the success of the Company. The Group takes a pragmatic approach to manage different risks to align with its business development strategically. The management identifies potential risks, assesses their impact and likelihood and develops appropriate action plans to mitigate risks to a level that the Company is willing to take in achieving the Company's objectives on a regular basis. The Group will continue to enhance the risk management practices and internal control system and adopt a stringent governance framework with reference to the best practices in the market.

INTERNAL CONTROL

The Board has overall responsibility for maintaining sound and effective internal control and risk management systems within the Group and reviewing their effectiveness, particularly in respect of financial, operational, and compliance controls, and setting appropriate policies so that the objectives of the Group can be effectively and efficiently achieved and the associated risks can be identified, managed and mitigated at an acceptable level.

Appropriate policies and procedures are provided to the staff to take all measures that can (i) safeguard assets against unauthorised use or disposition; (ii) keep proper and accurate accounting records and enhance the reliability of financial reporting; and (iii) ensure efficiency and effectiveness of operations and compliance with applicable laws and regulations. The design of the internal control and risk management systems is to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage and minimise the risk of failure in the Group's operational systems.

Supplementary Information

PUBLICATION OF INTERIM RESULTS

All details on the financial and related information of the Company containing all information as required by paragraph 46(1) to 46(9) of Appendix 16 to the Listing Rules are published on the website of the Stock Exchange. It will also be dispatched to shareholders and available to the public for collection in the following places in early December 2016:

1. Principal Place of Business in Hong Kong: Room 1106-8, Riley House, 88 Lei Muk Road, Kwai Chung, New Territories, Hong Kong;
2. Website: www.kenford.com.hk

OTHER DISCLOSURE

Save as disclosed, the Group either has had no material changes from the information disclosed in the latest annual report of the Company or such changes are considered not significant to the Group's operations, and thus no additional disclosure has been made in this report.

APPRECIATION

The Board would like to take this opportunity to express its gratitude to all members of the staff for their dedication and commitment and the continuing support from our customers, suppliers, banks and shareholders.

By Order of the Board
KENFORD GROUP HOLDINGS LIMITED
LAM WAI MING
Chairman

Hong Kong, 28 November 2016

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

| | | For the six months ended 30 September | |
|---|--------------|--|---------------------------------|
| | | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| | <i>Notes</i> | | |
| Revenue | 3 | 238,370 | 272,680 |
| Cost of sales | | (198,722) | (236,656) |
| Gross profit | | 39,648 | 36,024 |
| Other income, gains and losses | | 3,234 | (23) |
| Distribution costs | | (2,814) | (3,325) |
| Administrative expenses | | (44,086) | (37,186) |
| Finance income | | 115 | 441 |
| Finance costs | 6 | (616) | (584) |
| Loss before taxation | 6 | (4,519) | (4,653) |
| Income tax credit (expenses) | 7 | 281 | (643) |
| Loss for the period attributable to owners of the Company | | (4,238) | (5,296) |
| Other comprehensive expenses | | | |
| Item that may be subsequently reclassified to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | | (5,479) | (6,655) |
| Total comprehensive expense for the period attributable to owners of the Company | | (9,717) | (11,951) |
| Loss per share | 8 | | |
| – Basic (HK cents) | | (0.951) | (1.188) |
| – Diluted (HK cents) | | – | (1.188) |

Condensed Consolidated Statement of Financial Position

| | <i>Notes</i> | As at 30 September 2016 (Unaudited) HK\$'000 | As at 31 March 2016 (Audited) HK\$'000 |
|---|--------------|---|--|
| Non-current assets | | | |
| Property, plant and equipment | 10 | 168,385 | 176,169 |
| Prepaid lease payments | | 3,292 | 3,442 |
| Deposits paid for acquisition of property, plant and equipment | | 3,060 | 969 |
| Goodwill | | 1,403 | 1,403 |
| | | 176,140 | 181,983 |
| Current assets | | | |
| Inventories | | 77,570 | 72,633 |
| Trade and bills receivables | 12 | 131,364 | 117,765 |
| Deposits, prepayments and other receivables | | 15,476 | 13,673 |
| Tax recoverable | | – | 794 |
| Investments held for trading | | 6,608 | 5,458 |
| Bank balances and cash | | 107,897 | 104,003 |
| | | 338,915 | 314,326 |
| Current liabilities | | | |
| Trade payables | 13 | 91,655 | 60,759 |
| Accruals and other payables | | 19,498 | 20,326 |
| Provision for onerous contract | | – | 442 |
| Bank borrowings | | 47,863 | 46,998 |
| Tax liabilities | | 4,057 | 5,682 |
| | | 163,073 | 134,207 |
| Net current assets | | 175,842 | 180,119 |
| Total assets less current liabilities | | 351,982 | 362,102 |

Condensed Consolidated Statement of Financial Position

| | As at 30 September 2016 (Unaudited) HK\$'000 | As at 31 March 2016 (Audited) HK\$'000 |
|--------------------------------|---|--|
| | <i>Notes</i> | |
| Non-current liabilities | | |
| Deferred tax liabilities | 14,378 | 14,781 |
| | 14,378 | 14,781 |
| Net assets | 337,604 | 347,321 |
| Capital and reserves | | |
| Share capital | 446 | 446 |
| Share premium and reserves | 337,158 | 346,875 |
| TOTAL EQUITY | 337,604 | 347,321 |

Condensed Consolidated Statement of Changes in Equity

Attributable to owners of the Company

| | Share capital HK\$'000 | Share premium HK\$'000 | Merger reserve HK\$'000 | Properties Revaluation reserve HK\$'000 | Translation reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|---|---------------------------|---------------------------|----------------------------|---|---------------------------------|------------------------------|-------------------|
| At 1 April 2016 (audited) | 446 | 63,099 | 942 | 83,125 | 10,450 | 189,259 | 347,321 |
| Loss for the period | - | - | - | - | - | (4,238) | (4,238) |
| Other comprehensive expenses for the period | - | - | - | - | (5,479) | - | (5,479) |
| Total comprehensive expenses for the period | - | - | - | - | (5,479) | (4,238) | (9,717) |
| At 30 September 2016 (unaudited) | 446 | 63,099 | 942 | 83,125 | 4,971 | 185,021 | 337,604 |

| | Share capital HK\$'000 | Share premium HK\$'000 | Merger reserve HK\$'000 | Properties Revaluation reserve HK\$'000 | Translation reserve HK\$'000 | Share option reserves HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|--|---------------------------|---------------------------|----------------------------|---|---------------------------------|-----------------------------------|------------------------------|-------------------|
| At 1 April 2015 (audited) | 439 | 58,873 | 942 | 81,606 | 18,889 | 536 | 211,796 | 373,081 |
| Loss for the period | - | - | - | - | - | - | (5,296) | (5,296) |
| Other comprehensive expenses for the period | - | - | - | - | (6,655) | - | - | (6,655) |
| Total comprehensive expenses for the period | - | - | - | - | (6,655) | - | (5,296) | (11,951) |
| Issue of shares upon exercise of share options | 7 | 3,690 | - | - | - | - | - | 3,697 |
| At 30 September 2015 (unaudited) | 446 | 62,563 | 942 | 81,606 | 12,234 | 536 | 206,500 | 364,827 |

Condensed Consolidated Statement of Cash Flows

| | | For the six months ended 30 September | |
|--|--------------|--|---------------------------------|
| | | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| | <i>Notes</i> | | |
| Net cash from operating activities | | 9,348 | 8,341 |
| Investing activities | | | |
| Withdrawal of bank deposits | | – | 2,524 |
| Proceeds from disposal of property, plant and equipment | | – | 658 |
| Purchase of property, plant and equipment | 10 | (1,489) | (3,778) |
| Deposits paid for acquisition of property, plant and equipment | | (2,482) | (1,943) |
| Other investing cash flows | | 115 | 441 |
| Net cash used in investing activities | | (3,856) | (2,098) |
| Financing activities | | | |
| New bank borrowings raised | | 73,723 | 75,823 |
| Repayment of bank borrowings | | (72,858) | (65,423) |
| Proceeds from exercise of share options | | – | 3,697 |
| Other financing cash flows | | (616) | (584) |
| Net cash from in financing activities | | 249 | 13,513 |
| Net increase in cash and cash equivalents | | 5,741 | 19,756 |
| Cash and cash equivalents at beginning of period | | 104,003 | 96,920 |
| Effect of foreign exchange rate changes | | (1,847) | (2,492) |
| Cash and cash equivalents at end of period, represented by bank balances and cash | | 107,897 | 114,184 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2016

1. GENERAL INFORMATION

Kenford Group Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 10 November 2004 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 16 June 2005. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its ultimate holding company is Beaute Inc., a company incorporated in the British Virgin Islands, which is jointly controlled by Mr. Lam Wai Ming, the Executive Director and the Chairman of the Company, and Mr. Tam Chi Sang, the Executive Director and Managing Director of the Company. The registered office and principal place of business of the Company is Room 1106-8, Riley House, 88 Lei Muk Road, Kwai Chung, New Territories, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are design, manufacture and sale of electrical haircare appliances.

These unaudited condensed consolidated financial statements are presented in Hong Kong dollars (“HK\$”), and all values are rounded to nearest thousand unless otherwise stated.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2016

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

The condensed consolidated financial statements have been prepared on the historical cost basis except for leasehold land and buildings and investment held for trading, which are measured at revalued amounts or fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2016 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2016.

In the current interim period, the Group has applied, for the first time, the following new amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

| | |
|--|--|
| Amendments to HKFRSs | Annual improvements to HKFRSs 2012-2014 cycle |
| Amendments to HKAS 1 | Disclosure initiative |
| Amendments to HKAS 16 and HKAS 38 | Clarification of acceptable methods of depreciation and amortisation |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer plants |
| Amendments to HKAS 27 | Equity method in separate financial statements |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment entities: Applying the consolidation exception |
| Amendments to HKFRS 11 | Accounting for acquisitions of interests in joint operations |

The application of the above new amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2016

3. REVENUE

The Group is principally engaged in the design, manufacture and sale of electrical haircare appliances. Revenue represents the net amounts received and receivable for goods sold in the normal course of business, net of discounts.

4. SEASONALITY OF OPERATIONS

The Group on average experiences higher sales in the second and third quarters of the financial year, compared to other quarters in the financial year, due to the increased retail demand for its products during the Christmas holiday and the Chinese New Year period. The Group anticipates this demand by increasing its production to build up inventories during the second quarter of the financial year. Those built-up inventories still held at the end of the interim reporting period are sold off in the third quarter of the financial year.

5. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker for the purposes of resources allocation and assessment of performance of a single reportable and operating segment, which is the design, manufacture and sale of electrical haircare appliances.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2016

5. SEGMENT INFORMATION (Continued)

The Group's revenue from external customers by geographical location of customers irrespective of the origin of the goods is as follows:

| | Six months ended 30 September | |
|-------------------------|--|--|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Europe | 130,943 | 141,082 |
| Asia | 74,287 | 87,179 |
| North and South America | 30,295 | 40,157 |
| Africa | 460 | 967 |
| Australia | 2,385 | 3,295 |
| | 238,370 | 272,680 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2016

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

| | Six months ended 30 September | |
|--|----------------------------------|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Cost of inventories recognised as expenses | 196,478 | 235,863 |
| Depreciation of property, plant and equipment | 5,924 | 8,002 |
| Amortisation of prepaid lease payments | 46 | 49 |
| Interests on bank borrowings | 616 | 584 |
| Loss on disposal of property, plant and equipment | – | 1,109 |
| Allowance for inventories | 2,244 | 793 |
| Net foreign exchange loss (gain) | 514 | (345) |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2016

7. INCOME TAX CREDIT (EXPENSES)

| | Six months ended 30 September | |
|---|----------------------------------|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Current tax | | |
| – Hong Kong Profits Tax | – | (470) |
| – Over-provision in prior year | 1,636 | – |
| – The People's Republic of China (the "PRC") Enterprise Income Tax ("EIT") | (1,355) | (173) |
| Income tax credit (expenses) | 281 | (643) |

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 September 2015: 16.5%) of the estimated assessable profits for the period.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (six months ended 30 September 2015: 25%).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2016

8. LOSS PER SHARE

The calculation of the basic (2015: basic and diluted) loss per share attributable to the owners of the Company is based on the following data:

| | Six months ended 30 September | |
|---|--|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Loss for the purposes of calculating basic (2015: basic and diluted) loss per share (Loss for the period attributable to owners of the Company) | (4,238) | (5,296) |
| | Number of shares | |
| | '000 | '000 |
| Weighted average number of ordinary shares for the purpose of calculating basic (2015: basic and diluted) loss per share | 445,646 | 445,646 |
| Basic (2015: basic and diluted) loss per share (HK cents) | (0.951) | (1.188) |

There was no diluted loss per share for the six months ended 30 September 2016 as there was no potential ordinary share issued during the six months ended 30 September 2016.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2016

8. LOSS PER SHARE (Continued)

The computation of diluted loss per share does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price of shares for the six months ended 30 September 2015.

9. DIVIDENDS

The directors have resolved not to declare the payment of an interim dividend for the six months ended 30 September 2016 (six months ended 30 September 2015: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment at a cost of approximately HK\$1,880,000 (six months ended 30 September 2015: HK\$5,756,000).

In the opinion of the directors of the Company, the aggregate carrying amount of the Group's leasehold land and buildings as at the end of the current interim period that is carried at revalued amounts does not differ significantly from their estimated fair value. Consequently, no revaluation surplus or deficit has been recognised in the current interim period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2016

11. FAIR VALUE MEASUREMENTS OF THE FINANCIAL INSTRUMENTS

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

The Group's investments held for trading are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

| Financial assets | Fair value as at | | Fair value hierarchy | Valuation technique(s) and key input(s) |
|------------------------------|--|--|----------------------|---|
| | 30 September 2016 (Unaudited) HK\$'000 | 31 March 2016 (Audited) HK\$'000 | | |
| Investments held for trading | 6,608 | 5,458 | Level 1 | Quoted bid prices in an active market |

As at 30 September 2016, the Group's investments held for trading are measured at Level 1. There are no transfers between level 1 and 2 for both periods.

(ii) Fair value of the Group's financial assets and liabilities that are not measured at fair value on a recurring basis

The directors consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in these condensed consolidated financial statements approximate their fair values.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2016

12. TRADE AND BILLS RECEIVABLES

The credit periods granted by the Group ranged from 14 to 90 days. For those major customers, a credit term up to 120 days from the invoice date is allowed.

| | 30 September 2016 (Unaudited) HK\$'000 | 31 March 2016 (Audited) HK\$'000 |
|-------------------|---|---|
| Trade receivables | 128,340 | 115,599 |
| Bills receivables | 3,024 | 2,166 |
| | 131,364 | 117,765 |

The aging analysis of trade and bills receivables, net of allowance for bad and doubtful debts, presented based on invoice date at the end of the reporting period, which approximates to the respective date of revenue recognition, is as follows:

| | 30 September 2016 (Unaudited) HK\$'000 | 31 March 2016 (Audited) HK\$'000 |
|----------------|---|---|
| Within 60 days | 84,461 | 81,093 |
| 61 – 120 days | 27,008 | 34,921 |
| 121 – 365 days | 19,730 | 1,598 |
| Over 365 days | 165 | 153 |
| | 131,364 | 117,765 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2016

13. TRADE PAYABLES

The credit periods on purchases of goods ranged from 30 to 120 days. The aging analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

| | 30 September 2016 (Unaudited) HK\$'000 | 31 March 2016 (Audited) HK\$'000 |
|----------------|---|---|
| Within 60 days | 82,429 | 52,715 |
| 61 – 120 days | 7,133 | 5,863 |
| 121 – 365 days | 1,359 | 1,486 |
| Over 365 days | 734 | 695 |
| | 91,655 | 60,759 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2016

14. SHARE CAPITAL

| | Number of shares '000 | Nominal value HK\$'000 |
|--|--------------------------------------|---------------------------------------|
| Ordinary shares of HK\$0.001 each | | |
| Authorised: At 1 April 2015, 30 September 2015, 1 April 2016 and 30 September 2016 | 1,000,000 | 1,000 |
| Issued and fully paid: At 1 April 2015 | 438,926 | 439 |
| Issue of shares upon exercise of share options (note) | 6,720 | 7 |
| At 30 September 2015, 1 April 2016 and 30 September 2016 | 445,646 | 446 |

Note: On 26 May 2015, 3,360,000 and 3,360,000 ordinary shares of HK\$0.001 each were issued at exercise price of HK\$0.5 and HK\$0.6 each respectively upon exercise of share options.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2016

15. CAPITAL COMMITMENTS

| | 30 September 2016 (Unaudited) HK\$'000 | 31 March 2016 (Audited) HK\$'000 |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements | 2,114 | 1,023 |

16. RELATED PARTY TRANSACTIONS

The remuneration of directors and other members of key management during the current period were as follows:

| | Six months ended 30 September | |
|--|--|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Key management personnel compensation: | | |
| – salaries and other allowances and benefits | 15,029 | 9,461 |
| – contributions to defined contribution plan | 63 | 63 |
| | 15,092 | 9,524 |

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group, including directors and other senior management, totalling 7 individuals (six months ended 30 September 2015: 7 individuals).